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C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000394

SIPDIS

DEPT PLS PASS TO DEPT OF TREAS BRIAN GRANT

E.O. 12958: DECL: 9/28/2019

TAGS: [IR](#) [PGOV](#) [PREL](#)

SUBJECT: IRAN REVOLUTIONARY GUARDS BUY MAJOR TELECOMMUNICATIONS
COMPANY

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CLASSIFIED BY: Alan Eyre, Director, IRPO, State.

REASON: 1.4 (b), (d)

11. (C) SUMMARY: On September 27 the Iran Revolutionary Guards Corp (IRGC)-affiliated 'Etemaad-e Mobin Consortium' (EMC) bought a 50 percent plus one share stake in the Telecommunications Company of Iran (TCI) for an amount equivalent to USD 7.8 billion. The sale, the largest in the Tehran Stock Exchange's history, is consistent with other recent 'privatizations' under President Ahmadinejad which have transferred ownership of state assets from the government to quasi-public sector institutes, often the IRGC. While there was strong foreign and domestic interest in this TCI tender, Iran's Privatization Organization (PO) engineered the pre-sale qualifications such that ultimately only two IRGC-affiliated consortia were competing. The government's sale of a majority stake in the country's largest telecommunications provider to the IRGC serves both to consolidate control of a strategic sector in IRGC hands while also assuring it of substantial profits in the years ahead. END SUMMARY

TELEPHONE MONOPOLY, A PROFITABLE BUSINESS IN IRAN

12. (U) Originally the Telephone Company of Iran, TCI was re-structured in 2005 and reorganized as a parent company overseeing 33 subsidiaries including data, mobile, and backbone communications' providers. TCI has a complete monopoly on the fixed-line (landline and wired broadband) business in Iran. In its last annual report (September 2008), TCI reported 24.3 million fixed-lines in service as well as 27.8 million mobile subscribers (90 percent of the market). As such, it is a highly profitable company with significant growth potential.

13. (U) In July 2006 Supreme Leader Khamenei decreed that a renewed effort be made to privatize the economy, and TCI's privatization has been under discussion since 2007. Since that time many foreign companies had expressed interest and pursued the possibility of investing in TCI. However, most foreign investors ultimately withdrew because of revised privatization rules intended to prevent substantial foreign and or private ownership and to favor domestic investors with government connections.

¶4. (C) In early September a major Iranian telecommunications investor told IRPO that PO actions geared to limit private-sector interest indicted government intent to facilitate IRGC purchase of TCI. He cited other recent privatizations where qualifications were structured to limit the pool to only 'qualified' IRGC front companies. This investor cited his own situation, in which government pressure resulted in his company losing the right to represent MTN (the only foreign company to successfully obtain a mobile license to operate in Iran) to an IRGC front-company.

RIGGING THE FIELD

¶5. (C) As a result of heavy government pre-qualification of potential TCI purchasers there were ultimately only three bidders, two of whom were associated with the IRGC:

- ETEMAD-e MOBIN CONSORTIUM: The winning consortium, composed of three companies 'Gostaresh-e Electronic-e Mobin' (46 percent), 'Towse'eh Etemad' Company (46 percent) and 'Shahryar-e Mahestan' company (eight percent). The first two of these companies are subordinate to the IRGC Cooperatives Foundation ('Bonyad-e Ta'avon-e Sepah-e Pasdaran'), while the third company is owned by another parastatal organization, the 'Headquarters for Executing the Imam's Dictates' ('Setad-e Ejrai-ye Farman-e Imam').

- MEHR INVESTMENT COMPANY CONSORTIUM: The losing IRGC-affiliated

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consortium, composed of the Mehr Investment Company (affiliated with the Basij), the Social Security Investment Company ('Sherkat-e Sarmayehgozari-ye Tamin-e Ejtemai,' aka 'Shasta.'), and 'Sa Iran' a contracting company for MODAFL communications projects.

- PISHGAMAN KAVIR YAZD COOPERATIVE GROUP (PKY): The only non-IRGC-related company involved in the tender, it was established in 1996 and is composed of 15 investment and cooperative companies. A few hours before the September 27 tender it was disqualified from competition for undisclosed security reasons, despite having previously been approved for competition in the tender.

¶6. (C) An IRPO contact who invests heavily in the Tehran Stock Exchange said he and a number of private investors he knows invested in a five percent TCI offering when it was made available last year, predicting that future ownership would be in IRGC hands. Asked why, he said "we have to make money and government involvement in market manipulation ensures that the share price will go up." (COMMENT: the TCI tender price was almost double the current price, giving current TCI shareholders a substantial bonus END COMMENT). Asked about the impact of the IRGC purchase on the long-term business environment, he said that while private-sector investment would be ideal, maintaining government ownership is preferable to selling to the IRGC, adding "at least with government, we know who the owner is and where the money is going. With the IRGC, you don't even know."

¶7. (C) COMMENT: The government's sale of a majority stake in the

country's largest telecommunication provider to the IRGC serves to both consolidate control of a strategic sector in the hands of the IRGC while also assuring it of substantial profits in the years ahead. While the government has made much of its privatization effort as the focus of its economic liberalization policies, this latest effort demonstrates the hollowness fo the effort. While government institutions and some wealthy investors will benefit in the short-term from insider trading that shifts ownership among government-affiliated entities, the long-term prospect for telecommunications, once considered Iran's most-promising market, is severely diminished. Meanwhile, this 'historic' tender is but the latest example of the IRGC's ongoing expansion into mainstream commercial activities. To this end, the IRGC is soon set to have its own bank (upcoming septel). END COMMENT.
EYRE